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ABSTRACT

The State Student Incentive Grants (SSIG) program is examined with particular reference to its purposes, its relation to other federal grant programs, and its success as an incentive to other states. The origin and development of the SSIG program is reviewed beginning with its creation as part of the Education Amendments of 1972. Goals for the program included: (1) to encourage the creation of state student grant programs; (2) to encourage increased state expenditures on such programs; (3) to increase the federal assistance available to needy undergraduates; and (4) to foster better linkages between state and federal grant programs. It is suggested that the record of the SSIG program in achieving these goals is mixed. The program has been successful in meeting the first objective but has not encouraged increased state expenditures. The SSIG has modestly increased the overall amount of financial assistance available to students but structural features of the program that limit its effectiveness are noted. Options are proposed to modify and improve the program. These include: (1) eliminate the distinction between initial and continuation awards; (2) require state matching in all states; (3) define "substantial need" more narrowly; (4) modify further or eliminate the nonprofit requirement; (5) modify the allocation formula; and (6) change the base year. Major changes that are advocated include insuring access for needy students to high-cost colleges, equalization of state grant expenditures, and extending eligibility for state grants to all SSIG-eligible students. (Author/SF)

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The State Student Incentive Grant Program

An Assessment of the Record and Options for the Future

Janet S. Hansen

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The Washington Office of the College Board conducts research on policy issues in education, with an emphasis on postsecondary finance and the evaluation of programs designed to broaden access and choice in higher education. Legislative and policy analyses are shared with the membership of the College Board.

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Introduction and Summary

In recent years both the federal and state governments have supported ever-larger programs of need-based grants for undergraduate students. In 1969-70 states provided $200 million in grants to college students, and the federal government, less ($144 million through the Educational Opportunity Grant Program).[1] Gradually, the balance between federal and state efforts has shifted so that in 1979-80 the federal government will channel more than $2.5 billion to postsecondary students through three programs authorized in Title IV of the Higher Education Act: Basic Educational Opportunity Grants (BEOGs), Supplemental Educational Opportunity Grants (SEOGs), and State Student Incentive Grants (SSIGs). Meanwhile, state expenditures for student grants will grow to more than $700 million.

Only in the smallest of the Title IV grant programs, SSIGs, are these federal and state student aid efforts linked in any direct way. By providing funds through SSIGs to match state expenditures for grants to undergraduates, the federal government sought to encourage all states to create and/or expand programs of need-based student assistance. Since the enactment of this program, there have been disagreements about its purposes, its relation to other federal grant programs, and its success as an incentive to states. Because the SSIG program is coming up for reauthorization in 1979-80 along with other federal student aid programs, this report attempts to contribute to the policy debate by assessing the three issues raised above and considering options for the program's future.

The study begins with the creation of the SSIG program as part of the landmark Education Amendments of 1972. Actual implementation of the program was delayed until academic year 1974-75 because the Administration requested no appropriation. Meanwhile, officials in the United States Office of Education had been debating about how much leverage the federal government could exert on state behavior through the regulatory process. This report describes the outcome of the debate and also Congress's attempts in 1976 and

1. This discussion excludes the large amounts of nonneed-based federal assistance that the Social Security and Veterans administrations provide to students.

1978 to enhance the program's incentives and to foster changes in state student aid programs.

Next, the report measures the SSIG program's impact, especially as an incentive to state action. Interpreting the enabling legislation, the Office of Education established two explicit goals for the program: (1) to encourage the creation of state student grant programs, and (2) to encourage increased state expenditures on such programs. Implicit goals were (1) to increase the federal assistance available to needy undergraduates and (2) to foster better linkages between state and federal grant programs.

The analysis demonstrates that the record of the SSIG program in achieving these goals is mixed. The program has been successful in meeting the first objective: encouraging the creation of state grant programs. In 1972-73 ("pre-SSIG") only 28 states funded and operated need-based grant programs. By 1977-78 all 50 states and the District of Columbia had such programs; and it seems likely, though not certain, that the SSIG program induced this change.

It is much more difficult to give this program credit for the recent expansion of state student aid efforts -- the second goal. Because states with pre-SSIG programs enroll most of the nation's students, these states (some with long histories of providing student grants) receive the largest proportion of the federal program's enrollment-based allotments: 83 percent in 1977-78. They also accounted for 95 percent of the increase in state grant spending between 1971-72 and 1977-78. It seems doubtful that the SSIG program incited the growth of grants in these states, which spend significantly more each year on student grants than is required for them to receive their full federal allotment.

Between 1971-72 and 1977-78, the 23 states with post-SSIG programs increased their student grant outlays from 0 to $23 million -- $13 million in state funds and $10 million in federal SSIG matching funds. Thus the SSIG program has not been totally ineffective as an incentive and has helped assure residents of all states access to some kind of state grant program. Still, these statistics on post-SSIG state programs give a slightly exaggerated picture of the increase in state effort, since at least three states have never appropriated funds directly to match federal SSIG dollars.

instead, these states use a procedure called "alternative matching," whereby the Office of Education permits a state to count as its matching share either state funds appropriated to postsecondary institutions for student grants or institutional funds contributed to the state.

The SSIG program has affected, though modestly, the overall amount of financial assistance available to students; $200 million in federal funds has been provided by the program through 1978-79. Another $77 million will be added in 1979-80. While infusing additional money into the student aid system, SSIGs have also added to confusion caused by the existence of several apparently unrelated federal grant programs and numerous and varied state programs. They have not contributed significantly to the creation of a meaningful federal-state partnership in student assistance; the increasingly dominant BEOG program has served more to encourage states to coordinate their programs in ways that will minimize waste and duplication.

In addition, the funding imbalance between the federal and state partners is a problem. Since through the SSIG program the federal government is providing states with only about 10 percent of what states themselves spend on student grants, it is impossible for the federal program to have much impact on the size and shape of state programs.

Analysis also shows that the SSIG program has structural features limiting its effectiveness as an incentive for more state spending. These weaknesses include its "closed-ended" matching provision (with matching limited to available appropriations), its fixed base year, and its enrollment-dependent state allocation formula that treats all states alike despite large differences in their grant efforts. Moreover, some of the program's provisions (e.g., the statutory distinction between initial-year and continuation grants) create administrative difficulties for states.

The final section of this report presents a number of options, with arguments pro and con, for policy makers to consider as Congress reviews the SSIG program. One option, of course, is to phase it out. Another is to continue this relatively young program with "tinkering" amendments to improve its effectiveness as follows:

1. *Eliminate the distinction between initial and continuation awards.* Despite the statute's separate authorizations, Congress has always appropriated

one lump sum for SSIG initial-year and continuation awards. The statutory distinction could be eliminated to ease administrative burdens on the Office of Education and the states.

2. *Require state matching in all states.* Alternative matching could be prohibited, forcing all states to appropriate money directly for a state grant program if they want to receive federal matching dollars.

3. *Define "substantial need" more narrowly.* Although the enabling legislation calls for SSIGs to be awarded to students with "substantial financial need," the Office of Education has defined eligibility in ways that include students with virtually any financial need. Congress could clarify the statute to direct SSIGs to low-income students whose need is indeed "substantial."

4. *Modify further or eliminate the nonprofit requirement.* Congress amended the SSIG program in 1976 to require states to aid students attending all nonprofit institutions within their borders. In 1978 Congress passed an exemption to this requirement for states that had constitutional problems in complying. Other states now face statutory or judicial obstacles in complying, so further changes in this requirement may be needed.

5. *Modify the allocation formula.* Funds from the SSIG program are now distributed to states in proportion to their total headcount enrollment. Congress could change the formula to eliminate graduate students from consideration (since they are not eligible for SSIGs), to count only those students who are eligible for state grants under each state's rules, or to focus on other enrollment or nonenrollment factors.

6. *Change the base year.* To provide meaningful incentives for states that now have none, Congress could change the base year so that all states would have to increase their spending in order to continue receiving SSIG funds.

Congress could also choose to reauthorize the SSIG program in a significantly altered form. Major changes could include the addition of new goals for the program:

1. *Insure access to high-cost colleges for needy students.* The SSIG program could target aid on needy students in high-cost colleges and thus become more clearly a complement to the BEOG program, which provides access to low-cost postsecondary education.

2. *Set a federal standard for state grant expenditures to equalize the*

aid available in different locations and bring low-spending states up to at least this standard. Congress could determine the base level of grant aid that should be available in each state and use federal funds to fill in any gaps between state spending and the standard.

3. *Extend eligibility for state grants to all students who are eligible under federal SSIG rules.* The program could encourage or require all states to make students who are eligible for SSIGs under federal rules eligible for their individual state programs. Many states now exclude some categories of students who are eligible under the federal guidelines.

This study concludes with a discussion of some of the issues that flow from the addition of these three goals, including equity versus efficiency in the allocation of federal SSIG funds and possible conflicts between federal and state interests. Finally, the report touches on the costs of both major and minor changes in the SSIG program.

The Origin and Development of the SSIG Program

Before evaluating the SSIG program, it is useful to review the legislative history of this unique student aid program and the rules that federal officials developed to implement it.

The Origin of SSIGs

In 1971 Senator Jacob K. Javits of New York, whose state pioneered need-based student grants, proposed a program of federal incentive grants to encourage state spending on student aid.[2] With little discussion and few changes, Congress added the SSIG program to the Higher Education Act of 1965 through amendments that were signed into law on June 23, 1972.[3] It became a part of "Title IV: Student Assistance," which also authorizes the other student aid programs administered by the United States Office of Education.[4]

The SSIG program established a state-federal partnership in which the federal government provides dollar-for-dollar matching to states for their expenditures on grants to undergraduate students in postsecondary education. Participation is open to the 50 states plus the District of Columbia and the Commonwealth of Puerto Rico, Guam, American Samoa, the Virgin Islands, the Trust Territory of the Pacific Islands, and the Commonwealth of the Northern Mariana Islands. Students receiving SSIGs may attend a broad range of "institutions of higher education" as defined in the general provisions governing Title IV and the entire Higher Education Act: proprietary institutions, schools of nursing, and schools providing at least a one-year occupational training program for high school graduates, as well as public and private institutions in the traditional collegiate sector. Also like other Title IV student aid programs, part-time students in attendance at least half time are eligible for SSIGs although their awards are reduced proportionately from the amount specified in the statute for full-time students.

States qualify for federal SSIG matching if they have a student aid program

2. U.S., Congress, Senate, "The State Higher Education Act of 1971," 92d Cong., 1st sess., S. 1074, introduced March 2, 1971.
3. P.L. 92-318; 86 Stat. 255.
4. Basic Educational Opportunity Grants, Supplemental Educational Opportunity Grants, College Work-Study, Guaranteed Student Loans, and National Direct Student Loans.

that: (1) is administered by a single state agency; (2) provides grants not to exceed $1,500 per academic year to undergraduate students in attendance full time at an institution of higher education; (3) selects grant recipients on the basis of "substantial financial need" as determined annually by criteria established by the state and approved by the Commissioner of Education; and (4) pays for the state's share of SSIGs from funds that represent an increased state expenditure for student grants over the level of expenditures for such grants in a base year (defined as the second fiscal year preceding a state's entry into the SSIG program).

As the federal government's annual contribution to SSIGs, Congress authorized $50 million for initial-year awards and "such sums as may be necessary" for continuation awards.[5] For initial-year grants, each state is entitled to a share of available federal funds equal to its proportion of total enrollment in institutions of higher education. The Commissioner of Education is responsible for determining the allocation formula for continuation grants.

States apply to the Office of Education for as much of their annual allotment for initial and continuation awards as they can match with qualified state funds. If a state cannot provide sufficient matching to use all of its share of federal funds, its unused portion is reallocated to states with excess matching capacity, in proportion to total enrollment.

Implementation

The Nixon Administration moved slowly to implement the SSIG program, requesting no funds for it and issuing regulations only after Congress appropriated $20 million for SSIGs for fiscal year 1974. For a year and a half officials in the Office of Education had debated about how the program should be administered. This debate reflected both ambiguities in the law and a desire of some to prescribe more stringent standards for state participation than the statute seemed to permit. The regulations,[6] finally issued on May 31, 1974, significantly affected the way the program developed.

The states were left with a large measure of discretion in designing their

5. "Initial year" refers to the first year a student receives a grant; grants to the student in succeeding years are termed "continuation" awards.
6. 45 C.F.R. 192.

grant programs, and some, but not all, of the law's ambiguities were resolved. For example, the regulations only partially clarified the program's purpose. The law said merely that the federal government would "make incentive grants available to the states to assist them in providing grants to eligible students in attendance at institutions of higher education." The Office of Education regulations defined this to mean both the creation and/or expansion of state grant programs: "The purpose of this part is to make incentive grants available to the States to assist them in providing grants to eligible students with substantial financial need to enable such students to attend or continue to attend institutions of higher education. States may develop new student grant programs, or may expand existing ones by enlarging the class of eligible grant recipients and/or by increasing the size of the grants previously awarded."

While defining the program's purpose, the Office of Education could not remedy the statute's failure to specify the relationship between SSIGs and other Title IV programs. With BEOGs described as "the foundation upon which all other federal student assistance programs are based,"[7] it would seem that both SEOGs and SSIGs, the other two Title IV grant programs, should relate to BEOGs in some systematic way. In practice, however, they do not. George Skinner and Alfred B. Fitt in their analysis point out that "Title IV as amended in 1972 begins without any clear statement of purpose or goals," and note that a "definitive statement of goals could have added to a better understanding of the programs, their interrelationships and target populations." The SSIG program "appears to be an adjunct to the other programs rather than an integral part of a national program of student aid. It bears no evident relationship to any other program in Title IV."[8] It was possible to conceive of ways to relate the grant programs: some observers proposed, for example, that with BEOGs as an entitlement program designed to guarantee all students *access* to higher

7. U.S., Congress, House, *Education Amendments of 1972*, 92d Cong., 2d sess., 1972, H. Rept. 92-1085, Conference Report to accompany S. 659, p. 167.
8. George Skinner and Alfred B. Fitt, "Title IV of the Higher Education Act (A Technical Analysis of Six Student Financial Aid Programs, August 1974, by the Washington Office of the College Entrance Examination Board)," reprinted in U.S., Congress, House, *Student Financial Assistance*, 93d Cong., 2d sess., 1974, Seminars before the House Special Subcommittee on Education, Part 9, pp. 157-158.

education, SEOGs and SSIGs should focus on giving students a *choice* among institutions.[9] Neither Title IV nor administrative regulations, however, established such a relationship.

Also unspecified in the law is the degree of freedom to be left to states in designing grant programs that would be eligible for federal matching funds. For example, the Office of Education had to decide whether to grant funds only to states that make awards to all students eligible under the general provisions of Title IV and the Higher Education Act (half-time as well as full-time students attending school out of state as well as in state, students in all sectors of postsecondary education) or to permit states to decide for themselves on student and institutional eligibility. The conclusion was that almost unlimited state discretion was more in keeping with the intentions of Congress.

Another unclear area in the SSIG statute was the "maintenance of effort" requirement: could a state qualify for SSIG matching by increasing its expenditures over base-year levels in *any* of its grant programs, or must its additional spending be in need-based undergraduate programs that met SSIG criteria? Office of Education officials did not wish to encourage states to qualify for SSIG funds simply by switching money from one program to another. The program regulations, therefore, required states to increase *overall* spending on grants to students.

In a further interpretation of the statute, the Office of Education regulations defined "substantial financial need" in a way that permitted states to include virtually all students with any financial need in their SSIG programs, regardless of how high or low the family income. As a result, all states that already had need-based grant programs could qualify for SSIG funds without changing their existing rules on financial need. The regulations permitted states to find that substantial financial need existed if (1) a student's or

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9. See, for example, Lois D. Rice, "Federal Student Assistance: Title IV Revisited," pp. 149-168 in *Formulating Policy in Postsecondary Education: The Search for Alternatives*, John F. Hughes and Olive Mills, editors. Washington D.C.: American Council on Education, 1975; Consortium on Financing Higher Education, *Federal Student Assistance: A Review of Title IV of the Higher Education Act*, Hanover, N.H.: Consortium on Financing Higher Education, April 1975; and various publications of the Carnegie Council on Policy Studies in Higher Education.

parent's net income was less than $20,000, (2) a student's cost of education exceeded the family contribution by at least $90, *or* (3) the family contribution was lower than $2,800. The states could use a variety of methods to determine "expected family contributions," including the needs-analysis systems of the American College Testing Program or the College Scholarship Service, the calculations of expected family contributions in the BEOG program, the income tax system as defined in the regulations, or any other procedure that produced roughly comparable results.

Finally, through the regulations the Commissioner of Education prescribed the allocation of continuation grants: he would use the same enrollment-based formula that the statute required for the distribution of initial-year awards.

With the appearance of these regulations in mid-1974 and a $20 million appropriation for fiscal year 1974 (of which $1 million was impounded), the SSIG program began. Since SSIGs are forward-funded, the first grants reached students in time for academic year 1974-75, two years after the program's enactment.

Table 1 shows for each year of the program the federal appropriations, the number of participating states and territories, the numbers of aided students, and their average awards (state *and* federal shares). From its initial $19 million, the SSIG program has grown to $77 million in academic year 1979-80. Congress has always made a lump sum appropriation, not distinguishing between initial and continuation grants. Table 2 shows how each state's proportionate share of SSIG appropriations increased between 1974-75 and 1979-80.

Revisions in the Program

In 1976 Congress reauthorized the SSIG program for three additional years but with several significant changes. The Education Amendments of 1976[10] added a provision that states receiving federal SSIG funds would have to permit all nonprofit higher education institutions in the state to participate in their SSIG programs. Members of Congress apparently believed that some states were taking advantage of the discretion given them in the SSIG program to exclude

10. P.L. 94-482; 90 Stat. 2094.

Table 1. SSIG Program Statistics

Fiscal year (FY)	Federal appropriations	Participating states and territories	Number of students aided	Average SSIG award (federal and state share)
1974	$19 million*	39	135,365	$280
1975	$20 million	48	81,329**	$492
1976	$44 million	54	160,000	$550
1977	$60 million	55	***	***
1978	$64 million	57	***	***
1979	$77 million	57	***	***

*$20 million was included in the Labor/HEW appropriation act for SSIG, but under authority granted in the act, the Nixon Administration impounded 5 percent, or $1 million.

**The number of students aided dropped in FY 1975 largely because New York changed the way it used its SSIG funds. Instead of making many small grants as in 1974, New York gave larger awards to a smaller number of students in FY 1975. This change affected the average SSIG awarded in FY 1975 as well, which rose significantly even though appropriations for SSIG were nearly level.

***Figures not available.

Source: U.S. Office of Education.

many of the students whom the statute made eligible for Title IV student aid programs. For example, a few states excluded all students in nonpublic institutions. The Education Amendments called for the nonprofit requirement to take effect in any academic year beginning on or later than July 1, 1977; but a technical amendment, passed in 1977, postponed the effective date of the provision until October 1, 1978.[11] As this deadline approached, Congress passed an exemption to the requirement for states that could not allow for constitutional reasons aid nonprofit institutions to participate in their grant programs.[12]

In 1976 the Senate also passed a requirement affecting only states whose own grant expenditures did not exceed 150 percent of their federal payment through the SSIG program. These states would have had to treat residents

11. P.L. 95-43; 91 Stat. 213.
12. The exemption is contained in P.L. 95-566, the Middle-Income Student Assistance Act.

Table 2. State Enrollment-Based Shares of SSIG Appropriations

State or territory	1974-75	1979-80
Alabama	$ 243,153	$ 1,104,207
Alaska	28,143	120,389
Arizona	253,323	1,164,755
Arkansas	110,408	465,780
California	2,815,287	12,091,359
Colorado	264,443	1,015,459
Connecticut	268,249	966,598
Delaware	56,841	200,212
District of Columbia	164,768	540,787
Florida	532,658	2,237,243
Georgia	289,066	1,349,672
Hawaii	87,105	305,582
Idaho	71,923	247,224
Illinois	995,880	4,000,397
Indiana	412,419	1,519,109
Iowa	224,142	802,092
Kansas	220,841	850,254
Kentucky	221,496	948,433
Louisiana	275,164	1,061,631
Maine	70,744	275,597
Maryland	344,055	1,365,839
Massachusetts	659,176	2,483,774
Michigan	832,701	3,132,589
Minnesota	323,518	1,431,857
Mississippi	164,366	661,696
Missouri	386,676	1,511,417
Montana	57,730	206,375
Nebraska	139,247	528,055
Nevada	35,363	246,646
New Hampshire	61,833	258,448
New Jersey	493,228	1,955,604
New Mexico	99,290	380,493
New York	1,741,368	7,225,189
North Carolina	406,453	1,649,443
North Dakota	60,944	201,900
Ohio	799,087	2,962,556
Oklahoma	250,172	1,132,651
Oregon	252,273	966,688
Pennsylvania	879,800	3,252,137
Rhode Island	102,384	391,209
South Carolina	192,049	873,035
South Dakota	59,175	210,254
Tennessee	301,597	1,242,022
Texas	998,455	4,102,737
Utah	168,466	558,104
Vermont	52,646	189,155
Virginia	361,354	1,594,314
Washington	395,421	1,655,948
West Virginia	130,238	526,270
Wisconsin	446,021	1,594,771
Wyoming	36,141	125,769
American Samoa	1,736	5,368
Guam	6,861	23,821
Puerto Rico	194,291	728,831
Virgin Islands	5,636	2,986
Trust Territory	248	13,625
Northern Mariana Islands	--	1,643
Total	19,000,000	76,750,000

Source: U.S. Office of Education

attending out-of-state institutions on the same basis as those attending school in state. In other words, grants in these states would have had to be "portable" across state boundaries if the state were to qualify for SSIG funds.[13] The portability requirement did not survive conference with the House.

The Education Amendments of 1976 created a new incentive in the SSIG program, involving the Guaranteed Student Loan Program. To encourage states to set up state loan-guarantee agencies, Congress provided a bonus allotment of SSIG dollars for states with such agencies. In any fiscal year, one third of all SSIG appropriations over $75 million would be available only to those states that operated state loan-guarantee programs either through an agency of the state or (as added by a technical amendment in 1977) through a designated nonprofit private institution. This bonus allotment comes into play in fiscal year 1979, when SSIG appropriations pass the $75 million mark for the first time.

The 1976 legislation also included a second small incentive. States that wished to participate in the new pilot program allowing state processing of BEOG applications (Multiple Data Entry) would have to permit portability of SSIG funds. This provision, part of the bill initially passed by the House, was finally accepted by the Senate in conference,[14] demonstrating that both houses shared the concern over widespread limitations of SSIGs to in-state institutions.

In 1978, while considering legislation to extend the BEOG program to middle-income students, the House proposed an amendment to change the fixed base year in the SSIG program to a later year. This was an attempt to encourage states to increase their spending. Since the Senate version of the

13. U.S., Congress, Senate, *Education Amendments of 1976*, 94th Cong., 2d sess., 1976, S. Rept. 94-882 to accompany S. 2657, pp. 12 and 194-195. Committee members felt that they could not require portability in states that overmatched the federal contribution by more than 150 percent; to do so might force the state to send more money out of state than it received in federal matching funds.

14. U.S., Congress, House, *Education Amendments of 1976*, 94th Cong., 2d sess., 1976, H. Rept. 94-1701, Conference Report to accompany S. 2657, p. 14.

Middle Income Student Assistance Act (MISAA) did not contain a similar amendment, the House dropped its provision to speed enactment of the legislation.

To date, changes in SSIGs have been minor, probably because policy makers have been reluctant to revise so new a program. Now that it is somewhat older, it is appropriate to ask what the SSIG program has accomplished. The most obvious (though not the only) question concerns its success as an incentive in influencing state behavior.

The Impact of SSIG Incentives

The SSIG program sought to encourage states to initiate and expand grant programs for undergraduates. Has it succeeded in meeting these goals?

New State Programs

In 1972-73 ("pre-SSIG"), only 28 states[15] funded and operated need-based undergraduate grant programs:[16]

California	Iowa	Missouri	South Carolina
Colorado	Kansas	New Jersey	Tennessee
Connecticut	Maine	New York	Texas
Delaware	Maryland	Ohio	Vermont
Florida	Massachusetts	Oregon	Washington
Illinois	Michigan	Pennsylvania	West Virginia
Indiana	Minnesota	Rhode Island	Wisconsin

In academic year 1974-75, the first year in which SSIG funds were available, 36 states qualified for participation and received matching monies. By academic year 1977-78, all 50 states and the District of Columbia were participating.[17]

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15. The term "state" refers henceforward to the 50 states and the District of Columbia, unless otherwise noted. The participating territories are omitted from much of the following analysis because of data limitations.

16. Since the SSIG program was signed into law in June 1972, academic year 1972-73 marked the last time that state expenditures on student grants can safely be said to have been unaffected by the existence of the program. Most if not all state decisions on student aid expenditures for that year were doubtless made before the SSIG legislation was finally approved and before states could be fairly certain that the funds promised in the bill would actually be available. States are included in the pre-SSIG group if they reported expenditures on need-based undergraduate grants in 1972-73 in either the annual survey conducted by the National Association of State Scholarship Programs (NASSP) or the recent study of state student aid conducted by the Education Commission of the States (ECS) and the National Center for Higher Education Management Systems (NCHEMS). See NASSP, *Fifth Annual Survey*, October 1973; and ECS and NCHEMS, *State Descriptive Profiles of State Student Assistance Programs*, U.S. Office of Education Contract #OEC-300-76-0379.

17. After participating in the SSIG program in 1976-77, Alaska withdrew in 1977-78 because of a complicated legal problem in the state. Its program remained on the books, however, and was reactivated for 1978-79. All of the eligible territories also had participating programs by 1977-78. Several actually could have qualified for SSIG funds several years before they joined the program, but chose not to participate because their allotments were so small. The Commonwealth of the Northern Mariana Islands separated from the Trust Territory and received its own SSIG allocation in 1978-79.

The following list of states in the "post-SSIG" group shows the fiscal year of entry into the program:

1974	1975	1976
Georgia	Alabama	Alaska
Kentucky	Arkansas	Arizona
Nebraska	District of Columbia	New Hampshire
North Dakota	Hawaii	New Mexico
Oklahoma	Idaho	
South Dakota	Louisiana	1977
Utah	Mississippi	Nevada
Virginia	Montana	
	North Carolina	
	Wyoming	

To be sure, the number of state student grant programs was growing prior to the inception of SSIGs. Although no programs were established in academic years 1967-68, 1968-69, or 1969-70, three states created new, comprehensive, need-based state grants in 1970-71, and three in 1971-72.[18] It seems unlikely, however, that all of the jurisdictions without state grants would have added them in the next five years without the spur of the SSIG program.

Expansion of State Programs

Now that all states receive SSIG funds, the critical question is the extent to which the program has contributed to an increase in state spending on student grants. Overall, state programs have grown enormously, from $274 million in academic year 1971-72 to $735 million (including $59 million in federal SSIG funds) in 1977-78.[19] Of this additional $461 million, however, the states with post-SSIG programs spent only $23 million. States with pre-SSIG programs spent

18. Maryland, Ohio, and Washington in 1970-71; Colorado, South Carolina, and Texas in 1971-72. See National Association of State Scholarship and Grant Programs (NASSGP), *9th Annual Survey: 1977-78 Academic Year*, n.d. [October 1977], p. 19.

19. See NASSP, *Fifth Survey*, p. 3, and NASSGP, *10th Annual Survey: 1978-79 Academic Year*, n.d. [October 1978], p. 5. The NASSP survey for 1971-72 omitted Colorado and Delaware: data for these states have been estimated from ECS and NCHEMS, *State Descriptive Profiles*. In the NASSGP data for 1977-78, two states (Hawaii and Nebraska) appear to have reported state outlays incorrectly, based on comparisons with Office of Education data on SSIG funds allocated to each state. Therefore, totals for these two states have been adjusted so that they include enough state spending to match the federal SSIG dollars received.

the remaining $438 million, with New York alone accounting for $173 million or over one third of the increase.

How much of this expansion in pre-SSIG state grant programs results from the availability of federal SSIG matching money? It is hard to tell, but if we examine state expenditures and find that a state spends more than required to receive its full share of SSIG allotments, we can conclude that this program has little influence on the level of state grant outlays.

Table 3 shows for academic year 1978-79 the percentage of each state's total need-based undergraduate grants paid for by federal SSIG dollars (in rank order from low to high). Since the SSIG program offers federal matching of state grant expenditures on a one-to-one basis, any state with a federal share that is less than 50 percent of its total expenditures for grants is "overmatched." The states with pre-SSIG programs continue to have the largest grant programs and are all overmatched. In fact, these states (with the exception of Tennessee in academic years 1975-76 and 1976-77) have been overmatched in every year since the SSIG program began.

Because the states with pre-SSIG programs enroll most of the nation's students--e.g., 79 percent of the full-time equivalent (FTE) undergraduates in academic year 1977-78--they receive the lion's share of the SSIG program's enrollment-based allotments: 83 percent in 1977-78.[20] Yet it is at best an open question as to how much the federal program has contributed to the recent growth of grant programs in these states. New York, as noted earlier, by itself accounted for $173 million of the $438 million increase in spending by pre-SSIG state programs from 1971-72 to 1977-78; the federal share of its

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20. Data sources: National Center for Educational Statistics and U.S. Office of Education. States with pre-SSIG programs receive a different percentage of SSIG allotments than their share of FTE undergraduate enrollments because (1) allocations are based on total headcount in postsecondary education, not just FTE undergraduates in colleges and universities, and (2) some of the post-SSIG state programs do not use all of their allotments, freeing funds to be reallocated to states with the capacity to match additional dollars. Also, enrollments and allotments for any one year are not directly comparable because the Office of Education must use the latest *available* enrollment data to make awards, and these usually predate the award period in question by a year or two.

Table 3. Federal SSIG Dollars as a Percentage of Total State Student Grants Estimates for 1978-79*

State	Percent federal funds	State	Percent federal funds
1. New York	2	27. Tennessee	24
2. Illinois	4	28. Utah	25
3. Minnesota	4	29. Washington	27
4. Pennsylvania	4	30. Wyoming	28
5. Vermont	4	31. Delaware	32
6. Iowa	5	32. Georgia	35
7. New Jersey	5	33. Virginia	38
8. Indiana	6	34. Alabama	44
9. Wisconsin	6	35. North Dakota	48
10. Colorado	8	36. Alaska	50
11. South Carolina	8	37. Arizona	50
12. Michigan	9	38. Arkansas	50
13. Ohio	9	39. District of Columbia	50
14. Connecticut	10	40. Hawaii	50
15. Rhode Island	10	41. Idaho	50
16. Oregon	12	42. Louisiana	50
17. California	14	43. Mississippi	50
18. Massachusetts	14	44. Montana	50
19. Missouri	14	45. Nebraska	50
20. West Virginia	14	46. Nevada	50
21. Kansas	16	47. New Hampshire	50
22. Kentucky	16	48. New Mexico	50
23. Florida	21	49. North Carolina	50
24. Maine	21	50. Oklahoma	50
25. Maryland	22	51. South Dakota	50
26. Texas	22		

*Estimated by state scholarship and grant administrators early in 1978-79. At this point in the academic year, grant administrators know their federal SSIG allotments but may not have final figures for state-provided funds.

Source: NASSGP, *10th Annual Survey*, p. 7.

expenditures was not above 3 percent in any year. New York and 12 other states whose federal shares never exceeded 10 percent accounted for $319 million of the increase; these together with another 9 states whose federal shares were never more than 25 percent accounted for $417 million. Since these states could have spent much less than they did and still received all of their SSIG allotments, their decisions to expand their programs must have been influenced by considerations other than the federal incentive program.

Federal appropriations to date have been too low to require these overmatched states to increase grant outlays in order to participate in the program. Thus, the real impact of the SSIG program might be expected to come in the states that established student grant programs at least partially in response to the federal program and that are not for the most part overmatched. By 1977-78 the states that had not had any grant programs at the beginning of the decade were distributing $23 million to students, only $10 million of which was provided by the federal government as SSIG matching. Thus $13 million in new state assistance was available.

Nevertheless, the post-SSIG state programs receive only a small proportion of federal SSIG dollars (16 percent in 1977-78),[21] meaning that most of the federal funds (nearly $50 million in 1977-78) are not going to states where they might have a significant effect on state expenditures. Moreover, the new state programs account for just a tiny fraction (3 percent in 1977-78) of all state outlays on student grants. Thus only a small part of the total state effort on student assistance seems susceptible to federal influence.

Even for the states with post-SSIG programs, the federal program will provide an incentive for increased spending only until a state reaches the point where it is receiving its full enrollment-based allotment. A state will have to pay only 50 cents for each $1 increase in its student grant program--thanks to the SSIG subsidy--until it reaches its maximum federal allotment. After that point an additional $1 of state aid will cost the state $1. Thus, as a state approaches using 100 percent of its allotment, it faces a diminishing incentive to increase its own spending. Table 4 demonstrates that a number of states with post-SSIG programs have already reached this point, so if these states are to have any future incentives to enlarge their grant programs, federal appropriations for SSIGs will have to increase.

Table 4 also illustrates that not all states with post-SSIG programs respond to federal incentives. Nine states have never fully utilized their SSIG allotments, and in the last year for which data are available, 14 states used less than their full share.

21. In addition to the funds distributed to the states, 1 percent of federal SSIG dollars is allocated to the participating territories.

Table 4. Percentage of Allotments Used by States with Post-SSIG Programs* for Four Fiscal Years

State	1974	1975	1976	1977
Alabama	0	100	35	30
Alaska	0	0	58	0
Arizona	0	0	60	67
Arkansas	0	91	52	70
District of Columbia	0	63	100	100
Georgia	114	102	105	104
Hawaii	0	100	103	66
Idaho	0	69	98	93
Kentucky	114	103	105	104
Louisiana	0	83	45	77
Mississippi	0	96	99	102
Montana	0	70	79	100
Nebraska	107	103	88	103
Nevada	0	0	0	42
New Hampshire	0	0	90	90
New Mexico	0	0	43	99
North Carolina	0	100	81	100
North Dakota	114	103	104	104
Oklahoma	111	102	104	95
South Dakota	113	102	88	73
Utah	100	103	86	84
Virginia	83	98	95	100
Wyoming	0	46	9	9

*States can receive more than 100 percent of their basic allotment if they have sufficient matching funds available to participate in the redistribution of unused allotments from other states.

Source: Calculations from data provided by the U.S. Office of Education.

The impact of SSIGs on state spending is not only restricted by the allocation of so large a share of the program's expenditures to significantly overmatched states but also by a practice called "alternative matching," which permits states to receive federal matching dollars without directly appropriating any funds. Office of Education regulations permit states to count, for matching purposes, funds that the state provides institutions for grants[22] or nonfederal funds that institutions themselves contribute to the state. These funds are matched by the state with federal SSIG funds and eventually returned to the institutions for student grants. By allowing

22. If money is actually transferred and an audit trail is established.

alternative matching, the Office of Education made it possible for states to participate in the SSIG program without establishing a free-standing state grant program. Alternative matching also permits states to channel SSIG benefits to students at institutions that are ineligible (for legal or other reasons) for direct state aid.

Arizona, Mississippi, and Nebraska are three examples of states that have never directly appropriated state dollars for student grants, but nevertheless receive SSIG funding through alternative matching. The exact amount of alternative matching in any given year is unknown, although as many as eight or nine other states may have used it at one time or another, therefore exaggerating somewhat the level of state commitments to grant programs. Alternative matching also skirts the SSIG program's maintenance-of-effort requirement. States like Arizona, Mississippi, and Nebraska, with no direct outlays for state grant programs, are recorded as having no grant expenditures in the SSIG program's "base year"; in subsequent years their expenditures appear to grow because for SSIG purposes alternative matching is credited to the state. There is no way to tell, however, whether the institutions providing alternative-matching funds from state appropriations or their own resources have increased their spending on student grants since the base year; and there is no requirement that they must have done so to qualify for SSIG funds.

That the SSIG program does not provide much incentive to states to increase their state grant expenditures is buttressed by still other evidence from individual states. New York and Pennsylvania sustain this conclusion, though in very different ways. New York has vastly increased its expenditures since 1974-75. It is a significantly overmatched state and operates its Tuition Assistance Program as an entitlement, appropriating whatever funds are necessary to meet the need of applicants. In New York federal SSIG funds simply reduce the marginal need for additional state grant funds.[23] Pennsylvania, on the other hand, has not increased its appropriations for state grants since 1974-75;[24] but because of earlier

23. See Arthur Hauptman, "Student Grant Assistance in New York," a forthcoming publication of the College Board.
24. The Pennsylvania legislature may finally approve an increase in the state grant program for 1979-80 by approving a pending budget proposal.

increases and the fact that the state even now is overmatched, it like New York has always qualified for its full share of SSIG monies. Its allotment, moreover, has grown larger each year as total federal SSIG appropriations have increased.

It would be unfair to conclude that the SSIG program gives *no* encouragement to overmatched states to expand their grant efforts. It appears to have created a climate favoring the expansion of student grant programs, even where such expansion was not strictly necessary to capture federal matching money. In addition, the extra funds provided by the program may have persuaded some states, including overmatched ones, to commit themselves statutorily to programs larger than their own resources would have allowed. In California, for example, state officials have used growing levels of SSIG funding as leverage to persuade the state legislature to increase the number of student grants given and to raise the maximum award level. Despite these positive effects, the SSIG program gives overmatched states few tangible benefits, since expansion of their own grant programs does not increase their share of federal funds.

Structural Limits on Influence

Three aspects of the SSIG program's enabling legislation limit its effectiveness as an incentive: (1) its "closed-ended" matching provision, (2) the use of a fixed base year, and (3) the enrollment-dependent state allocation formula.

Closed-ended matching means that available federal appropriations match additional state expenditures only up to some specific dollar level. States that plan to spend more than their federal SSIG allotment on student grants have no incentive to increase their expenditures further. Open-ended matching, where the federal government matches all incremental state expenditures, would provide a continuing incentive to states to increase their support for student grants. But open-ended matching programs, however desirable, can become enormously expensive, so the federal government seldom uses them

(except, most notably, in the welfare and medicaid areas).[25]

Coupled with the closed-ended nature of the SSIG program, its fixed base year, rather than a "rolling" base year, means that once a state has increased its expenditures enough to capture all of its allotment, it has no incentive to do more. Pennsylvania exemplifies this problem. Its state grant program did not grow between 1974-75 and 1978-79, but its annual expenditures exceeded sufficiently those in the base year so that Pennsylvania received its full SSIG allotment in each year of the program.

The SSIG state allocation formula, which is based on enrollment, treats all states alike, though states vary enormously in their commitments to student aid. At one end of the scale, New York spends over $250 million annually on SSIG-eligible undergraduate student aid; at the other, Arizona, Mississippi, and Nebraska make no direct expenditures for state grants, instead relying on alternative matching. Table 5 illustrates the large differences in state grants per FTE student. At one extreme New York spends $383 per undergraduate FTE, while at the other extreme Alabama and Wyoming spend only $4. Despite these vast differences in state effort, the SSIG program provides each state with the same amount per enrolled student. It does not focus any special attention on the states that might be the most responsive to federal incentives or on those states with low average grants per FTE student.

If these problems resulting from closed-ended matching, the fixed base year, and the enrollment-based allocation were resolved, the SSIG program could at least offer tangible rewards to most or all states for increasing their student grant efforts. But even with the current structure, this program could be a more effective incentive if federal funding levels more nearly approximated state spending for grants. With the federal government currently providing only about 10 percent as much for SSIGs as states spend themselves, it is impossible for the federal program to have much impact on the size of state programs.

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25. For a discussion of closed- and open-ended grants in relation to the SSIG program, see Robert W. Hartman, "Federal Options for Student Aid," in *Public Policy and Private Higher Education*, David W. Breneman and Chester E. Finn, Jr., editors. Washington, D.C.: The Brookings Institution, 1978, p. 266. For a study of similar issues as they relate to another 50-50 federal closed-ended matching program, see Edward Miller, "The Economics of Matching Grants: The ABC Highway Program," *National Tax Journal*, XXVII, No. 2 (June 1974): 221-229.

Table 5. State Grants per Undergraduate FTE Student, 1977-78

Pre-SSIG Programs

State	Grant
California	$ 81
Colorado	91
Connecticut	73
Delaware	23
Florida	34
Illinois	202
Indiana	129
Iowa	121
Kansas	52
Maine	17
Maryland	34
Massachusetts	59
Michigan	90
Minnesota	136
Missouri	43
New Jersey	140
New York	383
Ohio	77
Oregon	41
Pennsylvania	218
Rhode Island	63
South Carolina	93
Tennessee	22
Texas	29
Vermont	143
Washington	27
West Virginia	50
Wisconsin	123

Post-SSIG Programs

State	Grant
Alabama	$ 4
Alaska	14
Arizona	11
Arkansas	9
District of Columbia	22
Georgia	22
Hawaii	9
Idaho	12
Kentucky	42
Louisiana	5
Mississippi	14
Montana	13
Nebraska	14
Nevada	10
New Hampshire	11
New Mexico	14
North Carolina	13
North Dakota	12
Oklahoma	16
South Dakota	9
Utah	19
Virginia	15
Wyoming	4

Sources: State grant data from NASSGP, *10th Annual Survey*, pp. 2-5, but see footnote 19 on p. 16. Enrollment data from U.S. Office of Education, National Center for Educational Statistics, *Fall Enrollment in Higher Education, 1977*. U.S. Department of Health, Education, and Welfare, Table 12, p. 58.

Other Effects of the SSIG Program

While this program is largely ineffective in fostering the expansion of state grants, it does have some impact on students, states, and institutions. Most importantly, as a *student aid* program it now adds $77 million annually to the amount of financial assistance the federal government makes available for undergraduates with demonstrated financial need. No matter how large their grant programs, few states are able to give awards to all eligible students;

so SSIG allocations do aid additional needy students by supplementing state appropriations.

The SSIG program is also the only explicitly federal *and* state grant program and thus could be the logical vehicle for tying together the disparate pieces of federal and state grant aid into some kind of meaningful whole.[26] Since the SSIG program was created, a number of states have in fact undertaken to coordinate their state grants with federal assistance, but these efforts were more a reaction to the rapid growth in the BEOG program. It involved so much new federal money (about $1.5 billion between 1973-74 and 1976-77) that many states felt the need to mesh their own and federal aid to avoid waste and duplication between BEOGs and state grants. The SSIG program, by contrast, provided little impetus for coordination; in addition to its relatively small size, it contained no requirements nor incentives encouraging states to coordinate with federal efforts.

The coordination that did occur was piecemeal rather than systematic. Some states required applicants for their own programs to apply for BEOGs and/or counted expected BEOG awards as a resource when calculating students' financial need. Some states formally limited the combination of federal and state awards to the student's calculated need or to the cost of education; a few adopted more elaborate provisions restricting total awards from BEOG and state programs or from these and family resources to some fixed proportion (under 100 percent) of need. Others, however, made no formal effort to coordinate programs at all, believing that award levels in practice were not high enough to create any risk of recipients having more than they needed to meet educational expenses.

While the SSIG program by itself has not contributed much to the integration of federal and state aid, it is worth dwelling on this point a moment longer because of the continuing concern over the interrelationships between this and other federal grant programs (BEOGs and SEOGs). Attempts to clarify these relationships, such as have been undertaken by the Carnegie Council, usually involve proposals to bring federal and state awards together in some nationwide system of student assistance. Major differences between the

26. For a discussion of possible ways of coordinating state and federal grant programs, see Hauptman, "Student Grant Assistance."

federal and state grant programs, however, make it difficult to move toward any systematic coordination at either governmental level.

For one thing, the BEOG program treats students with the same financial need identically no matter where they live; each state program treats students differently. Table 6 shows the variation among states in the size of average grants students received in academic year 1977-78 and in the number of grants awarded. Differing appropriations for aid and differing student and institutional eligibility provisions contribute to the great variation among states. Some states give grants to students with gross incomes as high as $25,000 (New York), while other states (South Carolina) limit assistance to low-income students. States have widely differing maximum awards, as low as $300 in Alabama and Arkansas or as high as $3,600 in one California program. In academic year 1978-79, 16 states and the District of Columbia aided students attending postsecondary institutions at least half time. Only 12 states and the District gave aid to residents attending out-of-state schools, and some of these states limited portable awards severely; e.g., to handicapped students or to students studying subjects not available at in-state institutions.[27] Moreover, portability seems to be on the decline: Massachusetts, New Jersey, and Pennsylvania have begun to restrict the use of their grants to students attending schools in states that have reciprocal policies, undoubtedly to lessen the one-way flow of grant monies. States also vary in the categories of institutions where students can use state grants; some states include virtually all postsecondary schools within their borders, while others exclude proprietary schools, religious institutions, or hospital schools of nursing.

27. Descriptive information about state programs from NASSGP, *10th Annual Survey*.

Table 6. Average State Grants, Number of Awards Made, and Awards as a Percentage of Enrollment, 1977-78

State	Average grant	Number of awards	Awards as a percentage of FTE undergraduate enrollment
Alabama	$ 223	2,453	2.0%
Alaska	1,567	90	0.9
Arizona	613	1,958	1.8
Arkansas	218	2,289	4.2
California	1,363	57,533	5.9
Colorado	724	13,500	12.6
Connecticut	680	9,999	10.8
Delaware	680	794	3.4
District of Columbia	1,099	794	2.0
Florida	1,063	7,802	3.2
Georgia	351	8,000	6.4
Hawaii	101	2,962	8.8
Idaho	525	686	2.3
Illinois	803	92,291	25.2
Indiana	738	26,610	17.4
Iowa	970	11,877	12.4
Kansas	790	5,616	6.6
Kentucky	347	11,048	12.2
Louisiana	575	1,588	1.4
Maine	340	1,562	5.1
Maryland	433	10,378	7.9
Massachusetts	596	24,477	9.9
Michigan	903	30,668	10.0
Minnesota	702	25,493	19.4
Mississippi	553	1,923	2.5
Missouri	402	15,750	10.6
Montana	250	1,320	5.3
Nebraska	257	1,591	2.7
Nevada	527	328	1.9
New Hampshire	465	800	2.5
New Jersey	473	55,976	29.6
New Mexico	377	1,450	3.8
New York	572	422,000	66.9
North Carolina	577	4,457	2.3
North Dakota	327	1,037	3.8
Ohio	448	52,814	17.2
Oklahoma	218	7,663	7.3
Oregon	391	9,847	10.5
Pennsylvania	609	118,636	35.7
Rhode Island	477	5,864	13.2
South Carolina	1,148	7,758	8.1
South Dakota	182	1,300	5.2
Tennessee	600	4,958	3.7
Texas	502	25,550	5.8
Utah	701	1,780	2.7
Vermont	588	5,438	24.3
Virginia	279	8,897	5.3
Washington	410	10,474	6.6
West Virginia	533	5,051	9.4
Wisconsin	602	35,300	20.5
Wyoming	589	95	0.7

Sources: Grant data from NASSGP, *10th Annual Survey*, pp. 2-5. Enrollment data provided by the National Center for Educational Statistics.

Integrating federal and state aid is further complicated by differing provisions about the use of grant monies. While BEOGs are based on all educational expenses, states vary in the types of college costs that their grants may cover. Some limit awards to tuition and mandatory fees; others consider non-tuition expenses as well. For constitutional reasons, the state of Washington does not consider tuition at all in making its awards. As Arthur Hauptman points out, "the type of state award procedure most conducive to coordination with BEOG is one which considers total costs of attendance, subtracts the family contribution, then fills some portion of the remaining need with a state grant."[28] Since many states do not use such a procedure, a single system of federal-state student assistance is impossible without major changes in programs and practices.

Summary

Reviewing its first five years of operation, then, the SSIG program can be credited with providing over $200 million in federal funds to assist students with demonstrated financial need to attend postsecondary institutions. It has led to the extension of state grant programs to all states and to some expansion of state spending. The program has not to date been an effective incentive for most states to expand their grant programs, though such expansion is now its only explicit goal, nor has it contributed significantly to coordination among federal and state grant programs. While some proposals have been put forward to link federal and state efforts in a more systematic way, this objective cannot be realized as long as the various grant programs of both levels of government are characterized by such different designs and purposes.

28. Hauptman, "Student Grant Assistance," p. 26.

Issues and Options

Having accomplished one of its purposes, the creation of need-based grant programs in all states, and having made some minimal progress toward another, the expansion of these programs, what now should be done about the SSIG program? Does the increased assistance that students receive from federal SSIG funds, now about $77 million annually, and whatever new state monies that the program induces justify further federal expenditures? If not, should the SSIG program be reauthorized at all, or should it be changed in major ways to foster new goals? A number of considerations, besides the program's record to date, will influence the answers to these questions.

Phasing Out the Program

Congress could decide that the SSIG program has met its original purpose insofar as possible and that federal funds would be better spent on more direct forms of student aid (such as BEOGs or SEOGs) or even on programs other than student aid. Therefore, one option for reauthorization is to phase out the SSIG program over a period of several years, providing only sufficient funding to give current SSIG recipients continuation grants until they complete their programs of study.

Maintaining the Current Program, Perhaps with Minor Changes

A second option for reauthorization is to continue the current SSIG program with relatively minor "tinkering" amendments to improve its operation and to strengthen its incentives. This approach makes sense if Congress decides that students need the assistance the program provides and/or that the federal government should sustain an effort still in its infancy. Regardless of judgments about the program's value, it may be too soon to consider eliminating it. State officials often fear they will be left holding the bag when federal interests shift, and some states hesitated to enact qualifying state student grant programs because they were uncertain about whether the federal commitment to SSIGs would continue and at what level of expenditure. Congress could choose to renew the program and thereby keep faith with these states.

While reauthorizing the SSIG program, Congress could tinker with some of its specific provisions as follows:

1. *Eliminate the distinction between initial and continuation awards.* Congress has always appropriated a lump sum for SSIGs, but the existence of separate authorizations has complicated program administration by requiring states and the federal government to record initial and continuation grants separately to avoid exceeding the $50 million cap on initial awards. As total appropriations increase, the possibility grows that state requests for initial awards will exceed $50 million. This is especially true because New York, which receives a large share of SSIG funds, makes only initial awards with its SSIG dollars (for the sake of administrative simplicity). The ceiling could be preserved by requiring New York or other states to shift funds from initial to continuation grants, but in New York, for example, this would result in no greater benefits to continuing students (who receive any money they need from the state's own funds) and more administrative complexity for the state. Alternatively, the separate authorizations could be eliminated.

2. *Require state matching in all states.* The Office of Education allowed alternative matching, especially where the funds were provided by private institutions, with the idea that it would be an interim measure until states (especially those with new programs) could make the necessary matching funds available for students in all schools. Now that states have had a few years to adjust, the SSIG program could require them to provide all matching money directly. Such a requirement would probably spur some states to increased effort, but it might force others (especially ones with legal barriers to aiding particular kinds of institutions) to drop currently participating schools from their programs.

3. *Define "substantial need" more narrowly.* Now that BEOGs have been extended to middle-income students, the SSIG statute could explain "substantial financial need" so that the term could no longer be administratively defined as virtually *any* financial need. Focusing on "substantial" could mean that at least the federally matched awards made by state grant programs would have to be targeted on lower-income students.

4. *Modify further or eliminate the nonprofit requirement.* Though Congress recently exempted states with constitutional problems from the program's requirement to aid students in all nonprofit institutions, it did nothing to help states that face statutory or judicial obstacles in complying with the

rule. More information should be forthcoming before reauthorization as to the extent of such problems, as states try to bring their programs into compliance for 1979-80 awards. Perhaps Congress will need to consider further exemptions if some states are not to be forced out of the SSIG program; the need for many exemptions should raise a question about keeping the requirement on the books at all.

5. *Modify the allocation formula.* If enrollment is kept as the basis for allocating SSIG funds to states, the statute could be changed so that only undergraduate students are counted. At present, the formula considers *all* students, including graduate students, who are ineligible for the program. As administered by the Office of Education, it also includes less than half-time students, who are also ineligible. Changing the formula to consider FTEs (as the SEOG program does) rather than headcount would lessen any distortion caused by the inclusion of less than half-time students. It may be impossible to eliminate the distortion altogether since the Higher Education General Information Survey enrollment data does not distinguish between half-time and less than half-time students.

In 1976 the General Accounting Office (GAO) suggested that the allocation formula be based on a ratio of the number of students eligible (under state laws) to apply for SSIG funds in each state to the total number of such eligible students in all states.[29] This would carry the previous modification one step further, by counting only students at state-defined eligible institutions and by excluding all nonresident students unless they were eligible to receive a grant from the state in which they attended college. (A very few states do aid nonresident students.) Adoption of this provision could give states a new incentive for extending eligibility for grants to all students in postsecondary education in the state. It might provide an excuse to drop the problem-plagued nonprofit requirement, since states would not receive federal funds based on ineligible student populations.

Factors in addition to or instead of enrollment could be used to allocate SSIG funds. Enrollment could be coupled with some measure of student need (such as BEOG dollars received by students enrolled in each state). Or the

29. See letter from Ronald F. Lauve, Associate Director of GAO, to Terrel H. Bell, Commissioner of Education, May 7, 1976.

enrollment base could be eliminated entirely in favor of a measure of student or state need (state need estimated, for example, on the basis of relative wealth or poverty). If the distribution of BEOG dollars were used as a proxy for student need and the aim were to reflect need among lower-income students, the preferred base would be BEOG distributions under the current program before the recently passed extension to middle-income students takes effect.

6. *Change the base year.* This revision would create new incentives for states that now spend so much more on student grants than they did in the existing fixed base year that the SSIG program gives them no incentive to expand further. The base year could be changed for the entire program or only for future appropriations above current levels. A new, later fixed base year would provide new incentives at least temporarily, but it would eventually be subject to the general weakness inherent in a base year that doesn't change. A rolling base year could provide continuing new incentives for all states.

Dividing the program into two "tiers" and applying the new base year only to "second-tier" appropriations that exceed current levels would give states the *option* of participating in a revised SSIG program, while protecting their involvement at current levels if they choose not to go along with the changes. For example, using a new base year for the entire program would force all states to expand their grant programs, even those such as New York that have made very large expenditures on student aid. Applying the new base year only to second-tier funds would allow states that do not or cannot expand their programs to continue receiving their current SSIG allocations.

Making Major Changes in the Program

Instead of merely continuing the current concern for expanding state student grant programs, Congress could make major changes in the program by adding new goals such as the following:

1. *Insure access to high-cost colleges for needy students.* With BEOGs now reaching middle-income students, the SSIG program might undertake a new goal of increasing aid to students in high-cost colleges. If state grants were targeted on such students, they would fit better with BEOGs, which give students general access to postsecondary education without making allowance

for the relatively high costs in some sectors. Such a link to BEOGs in purpose might also provide a rationale for linking SSIG funds to some proportion of appropriations for the BEOG program.

The Carnegie Council has proposed that the SSIG program be transformed along these lines. Under the Carnegie plan, BEOG would be explicitly an access program for all students and would be designed to meet noninstructional costs, while SSIG would become explicitly a choice program, focusing on instructional costs and giving higher awards to students at more expensive institutions. The Carnegie plan would require states to adopt this model to participate in the SSIG program but seems to assume that the federal government would provide open-ended matching for all state expenditures above 1969-70 levels to encourage participation.

2. *Set a federal standard for state grant expenditures to equalize the aid available in different locations and bring low-spending states up to at least this standard.* If the federal government wanted to insure that a basic level of grant aid was available in each state, it could set a standard (so many dollars per FTE student, for example) and use federal funds to fill in any gaps between state spending and the standard. In its pure form, such a scheme would use all available SSIG funds to subsidize students in states spending below the standard. Provisions could be included, of course, to give additional money to states above the standard, either by matching state spending or giving high-spending states a fixed amount of federal aid per FTE student.

3. *Extend eligibility for state grants to all students who are eligible under federal SSIG rules.* In particular, states could be encouraged or required to extend their programs to students attending college out-of-state, half-time students, and/or students with financial need regardless of academic performance. Incentives for broadened access to state grants could be offered by establishing a two-tier SSIG program, with participation in the second tier limited to states that had liberal eligibility requirements. Federal eligibility standards could also be imposed on states by requiring their adoption as a condition of receipt of *any* SSIG funds.

Students not attending college in their home state might be made eligible for state grants in several ways. One is through portable grants from their home state. To ease the historical opposition of states to portable grants, the federal share could be increased from 50 percent to some higher proportion.

Alternatively, states might be encouraged or required to aid nonresident students coming into a state to study ("reverse portability"), since that state's institutions benefit from in-migration, state dollars would stay in the state, and (at least under the current allocation formula) the state gets credit for enrolling nonresident students when SSIG funds are distributed.

These suggestions for major changes raise some difficult issues. Program modifications that would alter the distribution of federal funds among states, for example, are stymied by a serious conundrum: what value to place on equity versus efficiency in the allocation of SSIG dollars. The benefits that might come from a different allocation formula, such as the one called for in option 2, would be gained at the expense of the principle that money should be distributed fairly among states. Furthermore, this option would penalize precisely those states that were willing to aid students without any federal impetus. The SSIG program might operate more efficiently if its allocation formula did not treat states equally, but considerations of equity may preclude adoption of a different method of distributing federal appropriations.

Federal attempts to force changes in state eligibility rules would exacerbate conflicts over the balancing of federal and state interests that are inherent in a joint program such as SSIGs. Federal policy makers have a natural concern for controlling the money they appropriate and for using federal funds to achieve federal ends. Their state counterparts, however, have an equally understandable interest in determining how their own funds are used; moreover, state officials represent 50 individual state philosophies of higher education and a long tradition of state rather than federal primacy in the establishment of education policy.

Tension over state-federal balance has never been absent from the SSIG program, but it was minimized in the early years by a prevailing sense that the program was a partnership of equals and by a tolerance for the diversity of state policies that was initially built into the program. More recently, state-federal relations have been strained by both threatened and accomplished changes, such as Congress's abortive attempt to require interstate portability of state grants in 1976 and the adoption of a new requirement that state grants had to be made available to students in all nonprofit institutions.

The nonprofit requirement provides a lesson about what might happen to future federal efforts to force state compliance with federally established

criteria. In the first place, such a uniform requirement proved unworkable in the face of state constitutional provisions, and it had to be modified in 1978. In the second place, it caused a number of states to talk about withdrawing from the SSIG program, making explicit the weakness of a program whose expenditures are so small that some states may be able to forego them rather than modify their own programs in ways they consider undesirable.

The issue of comity would become especially pressing were the federal government to require states to make their grants portable across state lines. Portability seems to be the favorite recommendation of SSIG reformers. There are many reasons to believe, however, that requiring states to make their grants portable is not a realistic way of accomplishing the educational objective at issue: removing barriers that cause students to choose where to attend college for financial rather than educational reasons. Very few states currently permit their grants to be used at out-of-state institutions, and some that did until recently have begun restricting portability to states with like policies. Most states, including some with very large state grant programs like New York and California, are strongly opposed to portability for financial and political reasons. The SSIG program would have to be vastly larger than it is at present to compensate a state like New York for half of the added costs it would face in aiding its residents who attend out-of-state institutions. Even if a large proportion of these costs could be shifted to the federal government, state officials could still be expected to oppose vigorously the exporting of state funds to other states. Moreover, the next decade when all institutions are likely to be coping with serious budgetary and enrollment problems seems a particularly inauspicious time to try to persuade state policy makers to help students go elsewhere to school. Requiring portability as a condition of participation in the SSIG program might be the fastest way to drive out states like New York. If bringing all students into the SSIG program is an important federal objective, other ways besides required portability (such as the "reverse portability" idea mentioned above) may have to be tried to reach students who do not attend college in their home state.

Finally, one has to consider the costs of both major and tinkering changes in the SSIG program. Most of the options for change suggested in this section are compatible with any level of appropriation, and many are mutually con-

sistent and could be enacted simultaneously. Choices should be made, however, with an eye to the amount of SSIG funding that is likely to be available. New incentives based on second-tier appropriations, for example, are not likely to affect state behavior if increases in SSIG appropriations are small. It is not unreasonable to adopt a second-tier approach in any event, on the grounds that whatever new funds are available for the SSIG program should be used to further national goals. But expectations about what this program can do to affect state grants should take into account not just the existence of incentives in law but the actual level of federal dollars behind them. Similarly, if new requirements are to be imposed on states, it may take much more than the current $77 million of federal SSIG funds to convince all states that it is still in their best interest to participate in the program.